

Comments of Calpine Corporation
on the CAISO Standard Capacity Product
Straw Proposal dated 11-Nov-2008

Calpine appreciates the opportunity to comment on the CAISO SCP Straw Proposal. Calpine is committed to the development of a Standard Capacity Product not only to facilitate the transacting process, but to clarify the performance obligations of the generation capacity being committed to the CAISO. Calpine believes that the CAISO's Straw Proposal is fundamentally flawed in its definition of the obligation as well as the selection of qualifying capacity deration (as opposed to imposing financial penalties) as the remedy for committed capacity that fails to meet its performance obligations.

Calpine agrees with the CAISO that getting the performance obligations and non-performance consequences right is the core to a workable Standard Capacity Product. The Straw Proposal not only fails to do this, but it also takes the stakeholder process down an unproductive and unworkable path. Calpine requests that the CAISO return the principles articulated in its first white paper and continue the stakeholder process by examining the proposals that have already been submitted.

The Straw Proposal will not result in functionally workable Standard Capacity Product. In addition, because the Straw Proposal explicitly establishes discrimination between suppliers by according the same value for inferior performing units as higher performing units, we do not believe that if the CAISO continues down this path and submits this proposal to FERC that it will be determined to be just, reasonable and non-discriminatory. And finally, the Straw Proposal's vision of the Standard Capacity Product is 180 degrees counter to the consensus view regarding performance obligations and penalties that has developed through over two years of work at the CPUC and by a great number of industry participants.

First, the Straw Proposal contains virtually no details as to how the "preferred" NQC adjustments would occur. In addition to not providing much in the way of detail to react to (and we are not suggesting that this approach be further refined), this begs questions about the process by which the CAISO determined its preference. That is, why the 180 degree turn?

Second, the unit-specific performance obligations embedded in the Straw Proposal wrongly reward historic unavailability. Remarkably, and completely contrary to the CAISO's reliability mandate, the proposal does not recognize the value of, and intentionally attempts to avoid any reasonable differentiation in the compensation for highly available units. In addition, the Straw Proposal includes an expansion of the MOO to include a new A/S offer obligation on some, but not all resources. Nonetheless, the CAISO offers no differentiation in compensation for this highly valued product.

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In Calpine's initial comments on SCP, we proposed a fundamental metric for the evaluation of a Standard Capacity product. Calpine believes that a review of the Straw Proposal must necessarily conclude that it fails this litmus test.

"In its final determination, however, the CAISO must avoid the perception or reality of cross-subsidy within capacity definitions -- that inferior capacity is being overly-compensated at the expense of highly-reliable, dispatchable capacity"

Third, Calpine and every stakeholder willing to voice a preference at the stakeholder meeting on November 18 stated that in-period financial penalties are a better remedy for non-performance. The CAISO should not have been surprised as this is the consensus position that has been developed over a significant period of time with a diverse group of market participants. As such, the CAISO's November 18 request for comprehensive, integrated proposals from market participants was quite surprising and smacks of the "bring me a rock" metaphor in that it requests proposals with little guidance as to the failings of the existing, comprehensive and widely supported proposals.

More specifically, the CAISO request entirely overlooks at least two proposals that already rest with the CAISO – the obligations and performance conditions of the CFCM proposal as well as those embedded in the Calpine "Joint Proposal". Each of these proposals was forged after months if not years of negotiations and discussions between highly diverse stakeholder groups which included express invitations to the CAISO. The Straw Proposal's rejection of the consensus approach to obligations and non-performance consequences embedded within these two proposals is not explained. Indeed, Calpine believes those proposals should form the foundation of a new Straw Proposal.

The CAISO should return to the direction it contemplated in its first white paper and examine the proposals that it already has from CFCMA and Calpine in order to develop a Standard Capacity Product (with financial penalties) and abandon its problematic preference for a remedy expressed through a capacity derate.